Gulf Coast Business Reinvestment Forum

Executive Report

December 2005

Prepared by the International Economic Development Council
with the U.S. Chamber of Commerce,
in partnership with the states of Alabama, Louisiana, Mississippi, and Texas.

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The Gulf Coast Business Reinvestment Forum original working group presentations, audience discussion and feedback, and agenda/list of sponsors can be found at www.iedconline.org.

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I. Forum and Recommendations Overview

On November 28 and 29, more than 130 economic development, business and policy leaders from local, state and national levels met to create strategies for strengthening business reinvestment in the Gulf Coast region after Hurricanes Katrina and Rita.[1] The U.S. Chamber of Commerce and the International Economic Development Council convened the Forum in partnership with the states of Alabama, Louisiana, Mississippi and Texas. The Forum sought to enhance the position of the Gulf Coast on the federal legislative agenda and provide recommendations for economic development and business recovery.

The Gulf Coast Business Reinvestment Forum drew leaders from diverse areas and specialties. Participants were briefed on the current state of affairs in the Gulf Coast region, the status and outlook of legislation directed towards the region, and experiences from prior disasters. The majority of the Forum was devoted to creating recommendations through six working groups focused on the following topics:

- Infrastructure Development for Economic Development
- Workforce Development
- Financial Tools for Large and Small Businesses
- Image Building and Crafting the Media Message
- Legislative Agenda
- Coordination and Implementation

The strategies, recommendations, and benchmarks that came out the forum focused on a few overarching issues. These include the need to stabilize housing and living environments on the Gulf Coast, the importance of quickly addressing small business access to capital, and the benefits of regional coordination.

The Forum recommendations emphasized that the existence of housing is a prerequisite for business recovery. Policies and programs to extend forbearance mortgage policies, endorse housing corporations, and stimulate construction and rehabilitation must be made a priority. To help residents stave off financial disaster, forbearance mortgage policies must be extended until at least 2007, and repayment periods should be spread over a three- to five-year period. Legislation such as the proposed Baker Bill, which proposes to use proceeds from the sale of federal government bonds to buy storm-damaged property and pay off mortgages, will keep

[1] The Gulf States affected by Hurricanes Katrina and Rita referred to in this report include Alabama, Louisiana, Mississippi, and Texas.

borrowers from defaulting on loans and stabilize the mortgage and banking industries. Federal agencies should play an important role in housing reconstruction, and HUD must expand funding to help owners restore properties and ensure they are safe. In addition, special programs should be offered to renters and first-time homeowners on the Gulf Coast, and FEMA must continue the provision of temporary housing.

Forum presentations and participant feedback also stressed that the ability of small businesses to access immediate capital is crucial to revitalizing the Gulf Coast economies. SBA loan requirements should be streamlined, the process simplified, and the number of loans granted increased. Programs similar to flexible 9/11 loans are needed in the Gulf Coast region. States must be granted waivers to utilize CDBG loans for commercial uses, and business assistance centers require the support of state agencies to coordinate centers, train counselors, develop resource manuals, and fund site visits.

Finally, regional coordination coupled with local implementation was recognized as essential for post-disaster rebuilding. By coordinating efforts, the region can create larger change and generate support to stay on the road to recovery. Individual states can draw on larger opportunities and resources to develop and apply programs that meet the specific needs of their citizens and economies.

The remainder of this report introduces the conditions businesses and economic developers are confronting on the Gulf Coast, and reviews the priorities of the Gulf Coast states in their recovery efforts (as presented by state representatives at the Forum). The Lessons Learned section offers insight from participants experienced in disaster response and business recovery. Recommendations from the six working groups are discussed in detail, and finally, the conclusion discusses recent developments in federal funding.

II. Situation Analysis

Hurricane Katrina has proven to be the costliest natural disaster in U.S. history, with estimated damages higher than $200 billion. The cost has been high in human lives, with the official death toll close to 1,300 and more than one million individuals displaced from the Gulf States. Families are dispersed throughout the nation, and three months after Hurricane Katrina hit, less than one-third of the population had returned to live. Hundreds of thousands of homes need to be replaced, as well as key institutions including schools, universities, hospitals, and transportation infrastructure. In Louisiana alone, more than 200,000 homes must be replaced.

Labor shortages and the increased cost of building supplies in the region have produced a “Katrina/Rita” inflation factor, further hindering economic and business development. The number of affected businesses impact regional economic recovery as well as national productivity and trade. The area lost more than 220,000 jobs, creating a vicious circle in which businesses require the return of workers to function, yet workers need the security of a job and housing in order to return. Small businesses comprise 90 percent of the more than 80,000 businesses in the region that have been displaced, disrupted, or are at-risk, and are suffering from lack of labor and capital. Though programs and initiatives have been developed to address these needs, most federal programs are lacking quick turnaround and the funds to serve businesses adequately.

The legislative response from Washington has been very slow. The first action since initial emergency spending bills was the Gulf Opportunity Zone Act of 2005. The Act will provide assistance in the rebuilding of commercial enterprises, manufacturing plants, tourist attractions, utilities and housing through tax incentives. The bill prohibits certain businesses from taking advantage of the tax benefits, including gambling facilities. The U.S. Economic Development Administration does not plan to provide additional funding for relief efforts beyond the $8.8 million in de-obligated funds already committed. Rather, the agency will be participating in recovery efforts using existing resources.

In December, nearly four months after Hurricane Katrina struck, Congress approved a $29 billion package of Gulf Coast hurricane relief. Eighty-percent of the package was financed from leftover funds from the hurricane aid package approved weeks after Hurricane Katrina hit.

- ***Gulf States Priorities***

The most pressing need for the Gulf Coast region is national political support for the rebuilding of hurricane-damaged areas. Affected states must continue to communicate the great devastation in the region and the importance of rebuilding commercial, financial, residential, public, social, and cultural infrastructure for the stability of regional and national industries and economies.
The two issues most important to the recovery of the Gulf States' economies are housing replacement and the supply of capital for small businesses. Small businesses are the backbone of each affected economy, and their often fragile financial footing threatens the stability of the larger regional economy. Yet businesses are not receiving the financing they need. Of the more than 225,000 loan applications received by the SBA from individuals and small businesses by mid-November, only 38,000 had been "resolved" by being denied, approved, or withdrawn. Only 5,728 applications had been approved, leaving 187,000 applications unresolved and pending.

The lack of housing hampers the return of Gulf Coast residents, as well as the ability to attract new workers to the region. Over 42,000 families occupy Federal Emergency Management Agency (FEMA) travel trailers throughout the Gulf Coast and are in need of permanent housing. Though FEMA cites progress in providing housing and aid, complaints of red tape and confusion persist. Without housing, small businesses will continue to confront labor and investment shortages.

IV. Lessons Learned

Lessons learned from other regions that have confronted a disaster show that immediate support to small businesses – through bridge loans, grants and information – is crucial. Cities, counties, and states should act as a united front to seek federal funds and then use those funds to create flexible programs. Some federal programs already in place must be readjusted to meet the needs of specific areas and circumstances. Policymakers should understand the needs of the areas and be ready to craft and support such programs.

For example, after 9/11, Congress provided tax-free bonding authority to New York for the rebuilding of the destroyed area. Half of the bonds were allocated by the state governor and half by the mayor of New York City. The savings in financing costs from similar bonds issued for the Katrina and Rita affected areas could offset some of the inflation factor of increased supply costs and decreased labor.

Following 1992 Hurricane Andrew in Florida the State Established a small business emergency loan program, called Florida Small business Emergency Bridge (SBEB). This provided immediate cash flow to businesses to replace inventory and make necessary repairs. These loans are structured for quick approval, no-payment during the terms of the loan, and without fees. The state has continued this program and applied it several times since 1992. To develop and implement programs that address small business and housing needs on the Gulf Coast, the correct legislation is required, investor confidence must be increased, and a regional effort must be undertaken to maximize resources and implement recovery plans.

V. Recommendations

Six topics were identified by the Forum sponsors and the participating States as key areas to address at the Forum. Participants worked in one of six focus groups to develop strategies aimed at:

- Building a Gulf Coast image and media message;
- Establishing an optimum legislative agenda to guide redevelopment;
- Outlining crucial infrastructure needed for economic development;
- Suggesting workforce development requirements;
- Proposing the appropriate financial tools for large and small businesses; and
- Putting forth recommendations for coordinating and implementing business reinvestment and recovery initiatives.

Crosscutting themes such as entrepreneurship and innovation were included in all discussions.

Each working group comprised approximately 20 self-selected participants representing various organizations, regions, and specializations. Working Group chairs and facilitators put forth specific questions, guided discussions and provided expertise on the subject matter. Each working group presented to the entire Forum and received feedback.

The following subsections review recommendations, themes, and questions generated by each working group, and subsequent audience discussion

A. Infrastructure for Economic Development

The most important infrastructure issue facing the region is housing development. To successfully support small businesses, workers must return or be attracted and provided with physically, environmentally, and financially appropriate areas to live. Gulf states must review and restructure building codes and insurance systems to encourage development.

Along with housing, other short-term priorities to create healthy areas for Gulf States workers include the removal of debris and the re-establishment of key services such as water and sewer systems, schools and transportation infrastructure. The rebuilding of roads, docks, airports and levees is crucial to the recovery of the region and contribute to the economic vitality of the entire nation.

While infrastructure redevelopment is necessary in all the affected states, the specific needs and requirements are not uniform, so a one-size-fits-all strategy is not appropriate. To best address infrastructure needs and resources, each region's redevelopment plans should include the following:

- A master list of infrastructure needs;
- A vision of 'what we want to be';
- Short, mid, and long-term benchmarks;
- Cost estimates;
- Funding sources; and
- Sustainability

Redevelopment plans also must consider for whom they are building and *what level of redevelopment* is most appropriate.

The above short-term infrastructure priorities can be affected through local, state, and federal programs, and decision-making must come from all of those levels. To assist in effective programs, federal agencies must establish the parameters of their programs for the states. To best leverage resources, the communication of needs to federal agencies should be coordinated regionally.

While the infrastructure needs in the short-term are great, the long-term concerns of environmental science management (including levee and coastal protection), governance and coordination, the availability of energy, and contingency planning also are critical.

B. Workforce Development

The immediate workforce development priority in the Gulf States is to provide workers with employment and housing, and get businesses up and running. The short-term methods implemented to do so should be designed to support long-term responses to pre-existing workforce challenges, which may have been exacerbated by the hurricane crisis. This should foster better integration of regional workforce, economic development and community development efforts. A streamlined delivery system must be developed that is responsive to short-term recovery needs and the long-term needs of the workforce.

Workforce Development recommendations include:

- A Gulf Coast workforce summit to achieve regional integration and collaboration, determine how best to meet business needs, and focus by industry sector.

- Metro Alliances to coordinate workforce development efforts in larger labor market areas.
- Revamp Workforce Investment Boards to address recovery and rebuilding goals.
- Incorporate solid business support services in One-Stop Career Centers.

Federal funds must be used to support an integrated strategy and an inventory of federal and state resources for workforce development should be established. A set of best practices in recruitment, assessment, placement and training should be developed.

Workforce development must be addressed through marketing, outreach and worker/business matching. A marketing campaign directed towards businesses and workers should focus on successes, development and the positive outlook of the region. Benchmarks must measure the benefits and value of the campaign.

Finally, long-term worker skill development should create incentives for attracting higher-wage employers, developing entrepreneurship, and aligning worker skill sets with high-growth industries and target sectors.

Housing is crucial to attracting and preserving a skilled workforce in the Gulf Coast Region. The following housing recommendations require immediate attention:

- Extension of forbearance mortgage policy for at least 12 additional months to be spread over a repayment period of 3-5 years;
- Creation of a pool of low-interest loan funds to rehabilitate single-family and multi-family housing, and for new construction; and
- Re-invent FEMA/federal government temporary housing programs for administration by local government with a market-driven site selection process

C. Financial Tools for Large and Small Businesses

Both large and small businesses find themselves in a tumultuous post-hurricane environment. The most pressing financial issues faced by large businesses in the Gulf region include layoffs, lack of incentives, depreciation and amortization, housing for workers, and the uncertain status of utilities and refineries. Along with many of the same concerns of large companies, small businesses are confronted with limited access to capital and a broken or inefficient SBA loan program.

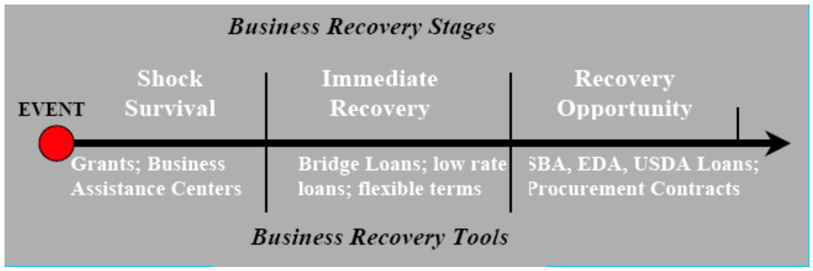
Small businesses must receive special attention so as to eliminate the high prospect of closing. Specific action steps include:

- Push for the use of New Market Tax Credits in impact area.
- Congress should pressure SBA to remove/reduce the fee structure of the GO loans and offer market or discount rates;
- Support provisions and legislation which accelerate restoration of housing to assist business recovery;
- Initial philanthropic programs to bring private, corporate and foundation resources together to address business recovery;

- State business plans should identify appropriate intermediaries that will speed program development and delivery, and create the system for doing so;
- Communicate and promote programs offered to small business; and
- Expedite the expansion of technical assistance centers.

The below figure illustrates the appropriate tools to utilize after a disaster.

Figure 1: Post-Disaster Business Recovery Stages and Tools



To survive the initial shock of the disaster, businesses must be offered immediate financing or funding, and businesses assistance centers must be open and staffed to respond to business crisis needs and questions. In the immediate recovery stage bridge loans must be implemented, which are designed as short-term, no fee financing with flexible terms. This will allow businesses to survive until they can access long-term financing that requires more paper work and authorization, such as SBA loans.

D. Image Building and Crafting the Media Message

A Gulf Coast media campaign is key to retaining and attracting businesses and workers. The campaign must bring national focus to the plight of the region, the recovery efforts, and the needs of small businesses. The message will emphasize the area's national import and highlight the region as a good place to invest and live.

In the short term, key image-building and media message strategies include:

- Leverage corporations to deliver an advertising campaign that focuses on "common ground" across the Gulf Coast;
- Use the private sector to influence legislation through the "Hill" and "Roll Call"; and
- National and cable broadcasts directly from the Gulf Coast (multi-state, multi-city broadcasts).

Long-term strategies include:

- A multi-state story aired throughout the U.S.;
- Regional bus tours for site selectors and prospects;
- "Box scores" to demonstrate successes in the Gulf Coast region; and
- A conference on the future of the Gulf Coast.

Messages and images must target Congress and voters, the tourism and convention industry, business decision-makers, tourists, investors and developers, opinion leaders, and displaced citizens and workers.

A coordinated authority should carry out the media message strategy for utmost efficiency and consistency. The states should operate as a united voice on the message, as many topics lend themselves to multi-state marketing.

E. Legislative Agenda
The most crucial issue requiring legislative support is access to capital for businesses. This regional approach should provide businesses in all areas affected by Hurricanes Katrina and Rita with the option of access to 9/11-style grants, bridge loans, SBA loans (through improved institutional operation), and vehicles for cash-based businesses.

The recently passed Gulf Opportunity Zone Act of 2005 is crucial in its provision of tax-exempt financing, bond authority, and the creation of a path to borrow capital for private sector reconstruction.

Other top legislative priorities include:

- Comprehensive hurricane protection for category 5 storms, coastal restoration and removal of the moratorium on off-shore drilling;
- Housing opportunities for all income levels through expansion of HUD funding (for owners, renters, and first-time homeowners), and endorsement of a housing redevelopment agency as proposed in the Baker bill; and
- Equitable tax relief for all affected areas.

A united front on priority issues will best leverage the region's strength to serve the needs of each state. To advocate for and implement the legislative agenda, a Gulf Coast Disaster Working Group should be established.

F. Coordination and Implementation
The prosperity of the Gulf Coast economy will require the persistent, strategic action and diligent monitoring of performance indicators.

First, the affected areas should be dealt with as a regional bloc of common interests. The governors should form a coalition to develop a unified plan that will establish priorities and obtain appropriate funding. Further, topical working groups across the states can help establish clear ground rules for how the resources are distributed. In order to address the needs of specific areas, local and state governments need to coordinate, implement and monitor programs.

The federal government should not be in the business of running local, targeted programs. The government may best be involved in investing and providing input regarding long-term strategies, rather than short-term solutions. For example, block grants provided directly to states should be used as flexible grants, employed as individual circumstances demand. The federal government should be responsive to state and local governments, which recognize needs and solutions for their businesses and citizens. Federal funds would be well spent providing technical assistance around innovation.

VI. Conclusion

The Gulf Coast Business Reinvestment Forum brought leaders together to learn, discuss, and create strategies for strengthening business reinvestment in the Gulf Coast region after Hurricanes Katrina and Rita. Since Forum participants developed the recommendations discussed in this report, a key change in federal funding has taken place. As mentioned above, Congress approved a $29 billion package of Gulf Coast hurricane relief in December 2005. Of that funding, $11.5 billion will be channeled to states in the form of Community Development Block Grants. The bill also provides $1.6 billion to help rebuild and repair schools, and $2.75 billion to repair roads, bridges and other transportation infrastructure. The bill does not include plans for financing more advanced levee protection against Category 5 hurricanes, or coastal restoration and hurricane evacuation routes.

The passage of the bill is a step towards rebuilding, and indicates successful regional efforts and partnership. At this time, each state must continue to collaborate internally to determine funding priorities, and build capacity to effectively implement and manage resources for business reinvestment and economic recovery. The challenge remains to create programs and incentives to develop worker housing and to ensure that small businesses have access to capital.